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NATIONAL INTELLIGENCE DAILY CABLE

Thursday 15 December 1977

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National Intelligence Daily Cable for Thursday, 15 December 1977.

The NID Cable is for the purpose of informing senior US officials.

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USSR: Economic Plan and Budget

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*[redacted] Information available so far from TASS indicates that speakers at yesterday's session of the USSR Supreme Soviet announced a spartan economic program for 1978, reflecting the leadership's expectations for continued slow growth. National income will increase by 4 percent next year while real per capita income is to grow by 3 percent.*

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*[redacted] Nikolay Baybakov, Moscow's chief economic planner, said that industrial production is slated to increase by only 4.5 percent in 1978, a rate consistent with the average annual rate of 4.3 percent over the past two years. Heavy industry is to grow at a somewhat faster pace, and consumer oriented industries somewhat more slowly.*

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*[redacted] The announced target for oil production in 1978--575 million tons--is down slightly from the original goal of 580 million tons that had been given for 1978 in the context of the*

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1976-80 plan. Planned output of coal in 1978 has also been pared down somewhat from the original goals of the five-year plan, while the output of natural gas envisaged for 1978 remains on track with the plan.

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[ ] After giving a final figure on this year's grain harvest--195.5 million tons, slightly above the previously announced output of 194 million tons--Baybakov announced a goal for 1978 of 220 million tons of grain. This is unattainable under normal weather conditions.

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[ ] Baybakov characterized 1978 as the year of "shock labor." He criticized a number of industrial branches for their inefficient performance in 1977 and said that labor productivity was not growing fast enough.

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[ ] Investment in 1978 in new plant and equipment is slated to continue to rise at the recent slow rate of about 3 percent--less than one-half the annual rate of growth in 1971-75. The continued slow growth planned for investment reflects the leadership's intent to continue the program of concentrating resources on the renovation and modernization of existing assets and to place increasing emphasis on productivity gains to stimulate economic growth.

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[ ] Announcing budget figures for the coming year, Minister of Finance Garbuzov said defense spending would remain at its 1977 level of 17.2 billion rubles. This figure does not reflect the real size of Soviet defense programs, nor does the trend in announced spending figures match the trend of observed Soviet defense activities. Published plans to keep defense outlays at the same level next year help buttress the prodetente image the Soviets are attempting to project both at home and abroad. [ ]

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#### FRANCE: Election Forecasts

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[ ] Three major French public opinion polls released last week show that, although a plurality of French voters still favor the Left, a growing number--26 percent--are unsure of how they will vote in the two-round legislative election next March. The large number of undecided voters, plus uncertainty about the strength of party discipline for the crucial second ballot,

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*make forecasting unusually hazardous. If the voting intentions expressed in the polls are translated into votes, however, it looks as if the Socialists, Communists, and Left Radicals will win a majority in popular votes in the first round, but may lose out to the governing coalition in the second round because of insufficient discipline among Left voters.*

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[ ] The polls showed clearly that Jacques Chirac's Gaullists dominate the right. Twenty-four percent of the voters favor the Gaullists; only 21 percent favor the other parties of the governing coalition, including President Giscard's Republicans, which are reported getting 13 percent. An earlier poll that showed the Republicans edging out the Gaullists apparently reflected only a temporary improvement in the Republican image because of Giscard's increased popularity over the last few months.

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[ ] The Gaullist showing, which is just about what that party polled in the last election in 1973, attests to the durability of the party's hold on the electorate. The strength of the Gaullists reduces Giscard's chances of "re-balancing" the governing coalition at Gaullist expense and should lessen speculation about the gradual evolution of a center-left coalition in France.

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[ ] The Socialist Party, damaged by the quarrel with its Communist partners in the Left Alliance and by the inroads of the ecology parties, polled a disappointing 24 percent. Centrist and undecided voters do not appear to be moving over to the Socialists as party leaders had hoped in the wake of the split in the Left. The polls confirm that centrist voters are more inclined to abstain on the second round than to shift their votes to the Socialists or Left Radicals.

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[ ] The various groups that make up the French ecology movement are gradually emerging as the jokers in the current political deck. Polls suggest that the ecology movement groups will

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gain around 4 percent of the vote in the first round of voting. Not many will make it into the second round, and the fate of many candidates of other parties will hinge on where the ecology vote goes. Until recently it appeared that the Left could count on about two-thirds of that vote, but the percentage now has apparently dropped to about 50 percent.

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[ ] Prospects for Communist-Socialist cooperation in the second round have also decreased. Only about 42 to 45 percent of Socialist voters would now support the Communists in the second round, although around 72 percent of the Communists would still vote for the Socialists. In both cases most of the other voters would abstain. Crucial to Left cooperation--and to the Left's chances of victory--will be the Communists' decision on whether to sign an electoral pact with the Socialists. This may be decided at the Communist Party convention scheduled for 7 and 8 January. [ ]

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#### TURKEY-CYPRUS-US: Relations

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[ ] //Turkey announced yesterday that it intends to withdraw about 700 of its estimated 31,000 troops occupying the northern zone of Cyprus. The decision may presage further conciliatory gestures aimed at improving US-Turkish relations and securing approval of the US-Turkish Defense Corporation agreement. The precariousness of the coalition government in Ankara and the Turks' reluctance to part with their gains in Cyprus, however, continue to limit Prime Minister Demirel's ability to take significant new initiatives, despite Turkey's urgent need for military and economic assistance.//

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[ ] //The announcement indicated that Turkey already had reduced its troop strength by some 30 percent, or 13,000 men. Previous announcements of troop withdrawals, however, were never fully implemented. Thus, the actual number of troops withdrawn since the 1974 intervention is probably between 6,000 and 10,000 rather than the number the Turks asserted yesterday.//

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[ ] //Turkish troop strength on the island has fluctuated because of normal rotations but has hovered around 30,000 during the last year. This is more than enough to give the Turks overwhelming military superiority over the Greek Cypriots.//

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[REDACTED] //The announced troop withdrawal was preceded by conciliatory Turkish statements calling for a resumption of the long-stalled intercommunal negotiations. The Turks have also been cooperative in the US-mediated effort to form a joint committee under International Red Cross auspices to deal with the problem of Cypriot missing persons resulting from years of intercommunal strife.//

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[REDACTED] //For the most part, however, Turkey has been preoccupied with shoring up its faltering domestic economy and trying to cope with the International Monetary Fund's demand for stringent austerity measures. This, together with the losses suffered by Demirel's Justice Party in municipal elections on Sunday, is creating strains within the coalition and in his own party that leave him with little leeway on the Cyprus issue.//

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[REDACTED] //Both UN Secretary General Waldheim and the Greek Cypriots insist that the next move is up to the Turks, and they are reluctant to participate in new talks unless Ankara gives assurances that the Turkish Cypriots will be responsive on the question of territory; the Greek Cypriots have already presented their proposals on this issue. Waldheim and the Greek Cypriots thus are not likely to see much that is helpful in the announcement of Turkish troop withdrawals.//

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[REDACTED] //It is doubtful the Turks will address the sensitive territorial question, but they have indicated that they may soon refine their earlier proposals on a constitution for Cyprus. This, together with other possible conciliatory gestures such as a compromise on the missing persons issue, might be sufficient to reactivate the intercommunal talks after the Cypriot presidential election in February. [REDACTED]

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PERU: Economics Minister Removed

25X1 [ ] //Peruvian President Morales Bermudez has removed the chief opponent of his economic policies from the cabinet by assigning him to the Washington-based Inter-American Defense Board. General Gaston Ibanez O'Brien's departure will not guarantee success for the President's economic program, but it should lessen official opposition to the austerity measures that Morales Bermudez believes are necessary to arrest the country's downward economic spiral.//

25X1 [ ] //Morales Bermudez is said to have increasingly viewed the politically ambitious Ibanez as a rival for power. Since last spring, Ibanez had led cabinet opposition to an austerity program necessary to obtain crucial balance-of-payments loans and to restore stability to an economy wracked by growing inflation, high unemployment, and stagnating industrial growth.//

25X1 [ ] //The opposition group in the cabinet seriously complicated Peru's negotiations with the International Monetary Fund for a standby loan when it forced the resignation of former Finance Minister Piazza in July. Piazza's removal followed widespread public unrest over the implementation of harsh economic measures. The agreement with the IMF was finally concluded last month.//

25X1 [ ] //More recently, in response to pressure from Peruvian industrialists, Ibanez reportedly has been insisting that the government take action to alleviate insufficient financial liquidity and permit salaries to rise so that consumer buying can rejuvenate industry.//

25X1 [ ] //Ibanez' removal comes at a time when there reportedly are increasing doubts among middle-level economic officials that the government can see the austerity program through to its conclusion. Even though Morales Bermudez may now be more likely to get cabinet approval for tough new measures to be enacted next year, he still will face strong opposition from the

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labor sector, which has grown increasingly more restive over the government's handling of recent strikes. [REDACTED]

#### INTERNATIONAL: Copper Producers

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[REDACTED] *Developing countries that depend to varying degrees on copper exports for foreign exchange earnings failed again last week to agree on effective measures to raise severely depressed copper prices.*

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[REDACTED] At a meeting in Indonesia of the Intergovernmental Council of Copper Exporting Countries, Zambia proposed that members cut output next year by 15 percent in order to raise prices. The proposal would reduce total output by about 370,000 tons annually, or 6 percent of the output of non-Communist countries, and would bring production into balance with estimated consumption. Chile, the largest producer, refused to go along with the proposal, but Zambia, Zaire, Peru, and Indonesia said they would proceed anyway.

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[REDACTED] Chile's unwillingness to cooperate foredooms the effectiveness of the proposed cut. Zaire, Peru, and Zambia--the latter has virtually a one-commodity economy--are unlikely to adhere to production cuts for very long while Chile benefits at their expense. Should Chile change its position, however, and if the cuts are rigidly adhered to, chances are good that a substantial price rise could be achieved.

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[REDACTED] Council members need production cuts to raise prices. They cannot, however, afford the lost foreign exchange earnings and unemployment among mine workers that would result while the market gradually returns to better balance.

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[REDACTED] Copper production has exceeded consumption in the non-Communist world every year since 1973, creating a surplus of 2 million tons. Prices have fallen close to the operating costs of many producers, and some marginal operations have closed. The prognosis for slow economic growth in developed countries means there is little chance that consumption will recover enough in the next several years to take up the slack in production capacity.

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25X1 [ ] The failure of an earlier attempt to restrict production illustrates the copper-exporting countries' problems. In 1975 the Council agreed to reduce exports by 15 percent, but producers soon began violating cutback goals and then abandoned them altogether. Some members have even expanded their operations during this period. Chile has increased mine output by 270,000 tons--a 37-percent rise--while Peru undertook an ambitious expansion program that will result in a 150,000-ton increase this year with more to come. [ ]

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#### BRIEFS

##### Turkey

25X1 [ ] Two more deputies reportedly resigned yesterday from Prime Minister Demirel's Justice Party. If the resignations in fact occurred, this means that Demirel's coalition has lost its parliamentary majority. Three Justice Party legislators bolted from the party on Sunday in apparent protest against Demirel's leadership.

25X1 [ ] Despite this serious setback, Demirel could still remain in power unless ousted by a vote of no-confidence. The question remains open as to whether or not opposition leader Ecevit can muster the 226 votes necessary to bring down Demirel's government. [ ]

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Ecuador

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[REDACTED] //Ecuador is losing interest in its membership in the Organization of Petroleum Exporting Countries because of the country's inability to affect OPEC decisions. Ecuador's impotence was underlined last December when it was passed over for its scheduled turn to fill the Secretary General post. The Ecuadoreans recently skipped an important OPEC meeting and have cut down other OPEC-related trips to reduce administrative expenses.//

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[REDACTED] //OPEC Secretary General Jaidah is now in Ecuador in an effort to boost Quito's failing enthusiasm. The cartel is especially concerned with maintaining a unified front during this period of excess world oil supply.//

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[REDACTED] Ecuadorean ambivalence toward OPEC is aggravated by the country's inability to sell oil on the glutted world market. The arrival of Alaskan crude on the US west coast--Ecuador's main market--has forced Quito to reduce production below 150,000 barrels per day from its normal level of 200,000 barrels per day. Withdrawal from OPEC would give Quito more freedom to work with foreign oil companies to set prices that maximize production and revenues. [REDACTED]

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North Korea

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[REDACTED] North Korea will unveil its 1978-1984 economic plan at the first session of the newly elected legislative assembly that opens today in Pyongyang. According to Pyongyang radio, a plenum of the Central Committee of the ruling Korean Worker's Party heard a report on the plan by President Kim Il-song on Tuesday.

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[REDACTED] Details of the plan may provide some insight into North Korea's economic difficulties stemming from its heavy foreign debt. The plenum also discussed "the organizational question"; this usually is a reliable indication that some changes in the leadership will be disclosed at the legislative assembly. [REDACTED]

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